



SECTION 1

The Capital Planning Process - Summary

This section of the Capital Plan Instructions provides a general overview of the capital planning process. Detailed instructions about the specific steps state agencies and institutions should take in developing their Ten-Year Capital Plans are contained in the next section and the appendices that follow. Unless specifically noted, the words “agency” and “agencies” as used in this document also includes institutions of higher education seeking capital budget funding.

1.1 The Ten-Year Capital Program

Washington State Budget and Accounting Act (RCW 43.88)



The Washington State Budget and Accounting Act (RCW 43.88) mandates a long-range approach to capital budget planning. The Act requires state agencies and institutions to submit a plan of proposed capital spending for a ten-year period, starting with the ensuing biennium. This long-range planning is designed to identify future issues and capital projects proposed to address those issues. The agency or institution’s Ten-Year Capital Plan must correspond and link to their strategic plan submitted in the operating budget.

The Governor's Capital Plan

The Governor will prepare his Ten-Year Capital plan proposal based on agency proposals and policy considerations. Projects included in the first biennium of the plan will constitute the Governor's capital budget. The Governor’s Ten-Year Capital Plan will be submitted to the Legislature around the first week in December 2002.

Making capital decisions for the future

The ten-year planning horizon recognizes that major capital projects span several biennia from start to finish. In many cases, capital budget decisions precede the implementation of operating programs with facility requirements by several years. For this reason, it is essential that decision makers be able to determine how various capital budget options will affect state programs in the future and how today’s capital decisions will affect future operating costs.

As in previous years, the Capital Plan Instructions recognize that certainty about state programs declines as agencies look further into the future. Therefore, the last four years of the capital plan need not contain the same level of project detail as the first six years. Requests for the last four years may be grouped into types of projects intended to accomplish general purposes such as preservation, additional space, conversion of existing space, and other categorical capital needs.

Programmatic projects will need the same level of information, regardless of funding source or financing alternative. For instance, projects funded by Certificates of Participation (COPs), will need the same level of information (i.e. Predesign, C100s, lease/purchase analysis, etc. as projects of the same size that are funded with state general obligation bonds.

What is a capital "project?"

The term “project” as used in these instructions is a line-item appropriation title. For example, the appropriation titles “Special Commitment Center” and “Minor Works Statewide” are each “projects.” The Minor Works project has several sub-project lines within the appropriation title.

Classifying capital projects

Capital projects are grouped into three main classifications: preservation, program and grant projects. These three categories provide a framework within which projects can be compared and selected. The three categories are discussed in Section 2.

Agency prioritizing projects

Capital projects for the Ten-Year Capital Plan should be prioritized in two ways. The first listing of priorities relates projects to the agency’s strategic plan and corresponds directly to the goals and objectives derived from that plan. The second listing corresponds to the priority structure used by OFM in reviewing capital budget requests. By cross-referencing these two lists, OFM can assess how agency priorities relate to statewide priority classifications.

OFM's project priority structure

OFM's project priority structure includes:

Protection of people – Projects that alleviate health hazards or reduce risks to staff or public.

Protection of assets – Projects that protect state assets or address site-specific emergencies where system failures and existing conditions require an immediate response to alleviate future damage to property, and may include actions that are the result of natural disaster, fire, accident, or court order.

Protection of the environment – Projects that reduce, repair or prevent environmental damage.

Cost savings – Projects that reduce the cost of service delivery (particularly maintenance and/or staff); or that create or enhance a revenue stream that recovers the project cost within seven years.

Program need or requirement – Projects that accommodate new programs, improve service delivery, maximize federal aid, or meet space needs that are the result of program change expansion.

1.2 Project Funding

Identifying funding sources

Appropriate funding sources for projects in the capital plan must be identified. For short-term improvements, agencies are expected to use cash accounts whenever possible. For larger “program” projects with a long useful life, long-term bond sales or other long-term financing options are appropriate. The term “capital project” is used to distinguish capital from operating activities and is based on the longevity or useful life of the work to be accomplished. This “useful life” criteria is also used in determining which projects are eligible for funding from the proceeds of long-term bond sales or other forms of long-term financing.

Dollar limit and useful life for bonded projects

OFM has established a dollar cost limit and a useful life for capital projects to be eligible for financing from bond proceeds. During the 2003-05 Biennium, the minimum threshold for a project to be eligible for bond financing is set at \$25,000 and 13-year useful life.

Policy decisions drive budget choices

Agency selection of an appropriate fund source should occur after preservation, program and policy choices are made. The determination of which projects can be supported by the state General Fund, dedicated accounts, bond funds subject to the state's debt limit, or alternative financing source should not determine what is included in the budget.

Alternate financing - an alternative to bonds

The definition of “financing contracts,” as contained in RCW 39.94.020, means “any contract entered into by the state which provides for the use and purchase of real or personal property by the state and provides for payment by the state over a term of more than one year, and which provides that title to the subject property shall secure performance of the state or transfer to the state by the end of the term, upon exercise of an option, for a nominal amount or for a price determined without reference to fair market value.”

OFM includes long-term leases in this definition. **Leases will be evaluated with the same information requirements and on the same basis of any other programmatic request.** Ties to strategic direction, submittal in the Capital Budgeting System (CBS), lease/purchase analysis and predesign space programming are all part of the submittal for “leasing” requests.

Included in this broad category of alternate financing requests are the following:

- **Major leases** are those leases that involve more than **30,000 new gross square feet of space**.
- **Lease development** projects that involve construction or renovation of a privately financed building of more than 30,000 gross square feet for purposes of state use or occupancy.
- **Other alternate financing** proposals include the development or use of space by state agencies through a contractual arrangement with a developer or financing entity. The sale of debt obligations or Certificates of Participation (COPs) through the State Treasurer may be involved, or financing may be offered by a private developer. Title to the property involved may transfer to the state either upon exercise of an option or at the termination of the contract.

Capital projects that are funded by alternate financing mechanisms are identified in the Ten-Year Capital Plan (and displayed in the biennial capital budget) because they represent long-term occupancy proposals and result in long-term costs. Any additional funds required to pay the cost of alternate financing proposals should be requested in the operating budget. In addition, **agencies that wish to propose these projects may be required to submit a complete package of information as described above, but must complete CBS submittal and the lease versus purchase decision model which may be obtained from OFM.** Please contact your OFM capital analyst for specific details.

1.3 Other Considerations

Reappropriation cash flow plan

Capital projects often take more than two years to complete; yet the state Constitution allows appropriation for only one budget period or biennium at a time. Therefore, funds for projects that exceed two years must be reappropriated in succeeding biennia to complete the project.

***One time reappropriation
for preservation projects***

As a rule, omnibus projects are considered small and should be completed within the biennium they are first requested in. Starting with the 2001-03 Biennium, omnibus projects will need individual justification as to why they could not be completed within two years to be reappropriated. *Preservation* projects first appropriated in the 1999-2001 Biennium and before will not be reappropriated in the 2003-05 Biennium. *Grants and program* projects older than the 1999-2001 Biennium may be reappropriated in the 2003-05 Biennium on a case-by-case basis. Agencies should contact their OFM capital budget assistant for guidance.

Debt service repayment

The State Treasurer prepares an operating budget for bond retirement and interest based on cash-flow plans for authorized capital projects. Selected agencies are required to provide the State Treasurer with a cash-flow plan for funds that will be reappropriated in the 2003-05 Biennium. This information is necessary for the Treasurer to plan bond sales and estimate debt service obligations in the 2003-05 Bond Retirement and Interest Budget. It is imperative that the cash flow plan be submitted to the Treasurer by July 19, 2002. See Section 9 for additional information and identification of affected agencies and funds.

Growth management

OFM is required under the Growth Management Act to maintain a list of "Essential State Public Facilities" to inform regional and local governments of the construction or siting of facilities across the state. All projects identified on the Ten-Year Capital Plan that are state-owned are essential public facilities.

Local governments cannot preclude the siting of essential state public facilities. For its part, the state must comply with local planning ordinances. While not all capital projects are sited at the time the budget is considered, it is important, whenever possible, to identify the preferred area or optional sites for locating each facility.

New information on growth management requirements

Agencies should review their project lists with affected local governments prior to capital budget submittal to ensure consistency with local plans by obtaining copies of local plans and ordinances and reviewing capital projects against those documents. Early contact with local governments is strongly encouraged. Substitute House Bill 2648 (SHB 2648) requires state agencies to answer the following questions as part of the 2003-05 Capital Budget application process:

- Is the proposed capital project identified in the host city or county comprehensive plan, including the capital facility plan and implementing rules adopted under chapter 36.70A RCW?
- Is the proposed capital project located within an adopted urban growth area?
- If located within an adopted urban growth area, does the project facilitate, accommodate or attract planned population and employment growth?
- If located outside an urban growth area boundary, does the proposed capital project create pressures for additional development?
- Was there regional coordination during project development?
- Does the project include leveraging of local or other funds?
- Have environmental outcomes and the reduction of adverse environmental impacts been examined?

The information requirement applies only to major capital construction projects over \$5 million and required to complete a predesign if located in a city or county planning under RCW 36.70A.040. Agencies should use the on line template which is available through <http://www.ofm.wa.gov/capital.htm> (see Appendix 1). The completed template must be submitted to OFM via e-mail by July 31, 2002. There is no CBS submittal for the Growth Management requirements in the 2003-05 Capital Budget process.

NOTE: Please note for future reference that these questions will be required to be answered in predesign for all major projects.

The goal of the legislation is to promote state capital facility expenditures that minimize unplanned or uncoordinated infrastructure and development, minimize unplanned or uncoordinated infrastructure and development costs, support economic and quality of life benefits for existing communities, and support local government planning efforts.

Assistance by the Office of Community Development

The Office of Community Development can assist agencies in obtaining copies of local comprehensive plans and in answering the questions. Contact Holly Gadbaw, Department of Community, Trade and Economic Development, Office of Community Development at (360) 725-3048, hollyg@cted.wa.gov for assistance.

The state also has a strong interest in those community-based facilities that are not owned by the state, but are operated by other entities under contract to the state. State agencies with an interest in the siting of these community-based facilities should contact appropriate local governments to ensure that such facilities can be accommodated.

Capital management and monitoring

OFM will issue allotment instructions following the passage of the capital budget. Agencies will be required to identify estimated cost and cash flow data by month for each appropriation received. The data will become the basis for evaluating project status throughout the next biennium and will be used by the Office of the State Treasurer.

OFM reports annually to the Legislature on status of capital projects

RCW 43.88.160 requires OFM to make an annual report to the Legislature regarding the status of all appropriated capital projects (including transportation projects) that show significant cost overruns or underruns. As projects are completed, OFM is directed to provide the Legislature with a final summary showing estimated start and completion dates of each project phase compared to actual dates, as well as estimated costs of each phase compared to actual costs. While most of this information can be obtained from various accounting systems, ongoing contact with OFM staff is required to provide insight on progress of major projects.

Facility inventory system

Statewide inventory data will play an important role in future budget decisions. Updated changes in the OFM Facility Inventory System (FIS) that provide condition assessment and replacement cost ranges for facilities will be especially helpful in reviewing budget requests. For this reason, identification of facility condition has become mandatory in FIS updates. In addition, square-foot information will be used in assessing agency performance regarding maintenance and preservation. Finally, information contained in the FIS will be used in the Annual Maintenance Summary Report.